

BEFORE THE TAX COMMISSION OF THE STATE OF IDAHO

In the Matter of the Protest of	)	
	)	DOCKET NO. 17620
[Redacted], )		
	)	DECISION
Petitioners.	)	
_____	)	

This case arises from a timely protest of a State Tax Commission staff's (staff) decision adjusting property tax reduction benefits for 2003. This matter was submitted for a decision based on the documents in the file. The State Tax Commission has reviewed the file and makes its decision based on the contents of that file.

[Redacted] (petitioners) filed an application for property tax reduction benefits on or about April 10, 2003. During review of that application and the accompanying copy of the petitioners' federal 1040 form, the staff discovered the petitioners received annuity proceeds during the year. The petitioners reported the taxable portion from the distribution in their federal adjusted gross income; therefore, the taxable portion was shown in the application along with other federal adjusted gross income. However, the nontaxable portion of the annuity was not accounted for in the property tax reduction application.

The staff sent the petitioners a letter advising them that their income total was going to be adjusted to include the nontaxable portion of the annuity proceeds. The petitioners protested the intended action.

All property within the jurisdiction of this state is subject to property taxes. A property tax reduction benefits program is available to certain qualifying individuals throughout the state. The benefit is in the form of a payment (either total or partial) of the applicant's property taxes on the dwelling he/she owns and occupies. The payment is funded by state sales tax funds.

The amount of property tax reduction depends on income--the greater the income, the smaller

the benefit. However, income is defined differently for the property tax reduction program than it is described in the income tax code. Income for property tax reduction benefits purposes is defined in Idaho Code § 63-701(5) as follows:

(5) "Income" means the sum of federal adjusted gross income as defined in the Internal Revenue Code, as defined in section 63-3004, Idaho Code, and to the extent not already included in federal adjusted gross income:

(a) Alimony;

(b) Support money;

(c) Nontaxable strike benefits;

(d) The nontaxable amount of any individual retirement account, pension or annuity, (including railroad retirement benefits, all payments received under the federal social security act except the social security death benefit as specified in this subsection, state unemployment insurance laws, and veterans disability pensions and compensation, excluding rollovers as provided in section 402 or 403 of the Internal Revenue Code);

(e) Nontaxable interest received from the federal government or any of its

instrumentalities or a state government or any of its instrumentalities;

(f) Worker's compensation; and

(g) The gross amount of loss of earnings insurance.

It does not include capital gains, gifts from nongovernmental sources or inheritances. To the extent not reimbursed, the cost of medical care as defined in section 213(d) of the Internal Revenue Code, incurred or paid by the claimant and/or, if applicable, the claimant's spouse, may be deducted from income. To the extent not reimbursed, personal funeral expenses, including prepaid funeral expenses and premiums on funeral insurance, of the claimant and claimant's spouse only, may be deducted from income up to an annual maximum of five thousand dollars (\$5,000) per claim. (Emphasis added.)

The calculation of income starts with federal adjusted gross income and, thereafter, makes certain additions and deductions. The nontaxable portion of annuities is specifically required to be included in income for property tax reduction purposes. The only exception is if an annuity is rolled over as provided in section 402 or 403 of the Internal Revenue Code.

The staff determined the petitioners received a gross distribution of annuities in the amount of \$31,641. Of that amount, \$29,081 was not taxable. The petitioners asked for a reconsideration of

the decision to include the nontaxable portion in the petitioners' income for property tax reduction benefits purposes.

In her letter, [Redacted] explained that both her husband and her [Redacted] year-old daughter have required treatment for life-threatening diseases "during this year." She said the family has been forced to travel a considerable distance for treatment of the complications resulting from each of the illnesses. She offered that it has been a year of complete unemployment for her husband who was already disabled but working and that her employment "can only bring in half the wages needed for a health care provider for my husband." She stated most of the medical bills were covered but other costs "quickly dwindled this withdrawal."

Pursuant to the definition of income stated in Idaho Code § 63-701(5), the nontaxable portion of the annuity proceeds the petitioners received during 2002 must be included in income for the purposes of this particular benefit program.

As a result, the petitioners' 2002 income for property tax reduction purposes for 2003 is determined to be \$39,762 rather than the \$11,329 that was reported in the application the petitioners filed with [Redacted] County. Unfortunately, the petitioners' income exceeds the \$21,290 threshold for the 2003 benefit year that would allow them to receive the minimum benefit. The petitioners must be denied the property tax reduction benefits for 2003.

The State Tax Commission is aware there is some potential this decision could cause a hardship to the property tax reduction applicant in certain circumstances. The proper jurisdiction to handle such hardship situations falls with the county commissioners pursuant to Idaho Code § 63-711.

WHEREFORE, the decision of the State Tax Commission staff to deny the property tax reduction benefits is APPROVED, AFFIRMED and MADE FINAL.

An explanation of the petitioners' right to appeal this decision is enclosed with this decision.

IDAHO STATE TAX COMMISSION

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COMMISSIONER

CERTIFICATE OF SERVICE BY MAIL

I hereby certify that I have on this \_\_\_\_\_ day of \_\_\_\_\_, 2003, served a copy of the within and foregoing DECISION by sending the same by United States mail, postage prepaid, in an envelope addressed to:

[Redacted]

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